CATHEDRAL

SYNDICATE 2010
MMX

Annual Report
31 December 2007

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CATHEDRAL SYNDICATE 2010

Chairman's Statement

At the start of our eighth year of underwriting, the accounts have once again been produced on both an annual accounting basis and on the three year traditional "funded" basis in respect of the closing 2005 Year of Account.

On an annual accounting basis, Syndicate 2010's combined ratio for the 2007 calendar year is 78.0%, a profit of circa £42.5 million. This is a good result by anyone's standards, notwithstanding that the calendar year 2007, like its predecessor, was relatively loss free in the areas in which the syndicate tends to specialise.

Reverting to the traditional basis of reporting, I am delighted to say that the syndicate continued its profitable record with a closed year profit of 8.0% of capacity for a name paying standard managing agency fee and profit commission. When you recollect the "wind" losses in 2005 included Katrina, Rita and Wilma, not to mention a plethora of losses elsewhere which affected both our property treaty and our direct and facultative property books, then the eventual outcome for the year can only be described as an outstandingly good result. The aviation account once again produced a profitable contribution to the overall return, as did the earlier closed years.

As predicted a year ago, the 2006 Year of Account is on course to produce a good result and we are currently forecasting a profit of 15-20% of capacity.

Although much of the 2007 Year of Account premium remains on risk, the year is expected to make a sound return all things being equal, but we would normally wait until after the 6th Quarter (30th June) before making a firm forecast.

While good results are always welcome, is usual in the insurance arena there tends to be a price to pay; in this case it takes the shape of over-capacity which is leading to falling rates in most classes of business. Many of the recent "start-ups" have had something of a charmed life in the past twenty four months but they are soon likely to be put to the test, especially if wind losses in the Gulf of Mexico and the US Mainland return to a normal pattern (possibly allied in some cases with shortfalls on their casualty reserves). This raises the question of whether the insurance industry faces a return of "Feast to Famine" once again? The answer is probably not quite yet, but we look to be headed in that direction. However I have no doubt that the underwriting team at Syndicate 2010, headed by John Hamblin, is very well equipped to deal with whatever the future may hold and I take this opportunity to thank them and all at Cathedral for their achievement in producing another fine set of results.

I should also thank my non executive colleagues on the board, John Tilling (the Independent Review Director), Michael Andrews and Elvin Patrick, for their contributions and wise advice. They have recently been joined by John Goldsmith, formerly Chairman of Lloyd's brokers Towers Clayton Perrin, whom I have no doubt will add an extra dimension to board discussions.

A. I. G. C. South
Chairman

19 March 2008

Underwriter's Report

Introduction

On an annual accounting basis, the result of the syndicate for calendar year 2007 is a profit of £42.5 million (combined ratio 78.0%). On the traditional Lloyd's basis of reporting, the 2005 year of account has closed with a profit of £22.7 million before standard personal expenses, being 8.0% on capacity, after the deduction of standard personal expenses.

2005 account

I am pleased to report that the year has closed with a profit of £22.7 million, before personal expenses and after currency adjustments accounted through the Statement of Total Recognised Gains and Losses. For a natural name with standard personal expenses, this equates to a profit of 8.0% of capacity, before members' agency fees. This result is slightly higher than our revised estimate at the end of the third quarter.

The capacity for the 2005 underwriting year was approximately £200 million. The gross signed premium income, net of brokerage, was some 85% of capacity at year-end rates of exchange.

In last year's report, I summarised the loss activity affecting the 2005 year of account, most particularly Hurricanes Katrina, Rita and Wilma. These and other losses affecting the year ran off within our reserve provisions and within our reinsurance protection. There were also small releases from prior years which all continue to run off very well.

Given the nature of the losses in both size and complexity, this is a very satisfying result.

2006 Account

For the 2006 account we increased our capacity to approximately £250 million, in large part to take advantage of what we thought would be a difficult, but distressed market in many areas of our operations.

Given the size and scope of the 2005 hurricane losses, we expected property rates for US business, particularly that with coastal exposures to rise at the beginning of 2006 by much more than they actually did. The reason they did not do so was down to many of our competitors evidently being unaware of just how much damage the hurricanes had actually done to them. It was not until the end of the first quarter of the year that such realisation widely dawned. Then capacity began to withdraw from the market at an unprecedented rate and by the mid year we were in the hardest property market in the US for a number of years. In Florida in particular, capacity almost dried up entirely and by the third quarter of the year property pricing had become so high as to be regarded as unaffordable by many buyers, who chose instead to run the risk themselves.

Due to the horrendous nature of their losses from the hurricanes of 2005, many markets had no option other than to reduce their coastal exposures in a hurry. Under pressure from management and in particular the rating agencies, they rushed to diversify. This involved entering new markets and writing anything as long as it was not coastal US property business. As 2006 drew to a close, this led to softening in virtually everything perceived as being non catastrophe exposed US property business which then gathered pace through 2007. The results of this "strategy" are evident in the sharply softening market which we are now in for 2008.

As it turned out, the 2006 hurricane season was one of the most benign in recent years, so everyone was a winner although most would claim that this was due to superior risk selection and a disciplined approach to risk management. Had many demonstrated those virtues *before* the 2005 hurricanes, their capital providers would have suffered less than they did.

On the direct and facultative side, the huge increases in premiums for US property business during 2006 meant that we skewed our business in that direction, particularly as international rates mostly continued to move the opposite way.

Our aviation business, which is virtually all reinsurance, remained relatively strong during 2006. There were a number of smaller airline operators who suffered losses, but most of these fell to clients' net accounts rather than into the reinsurance market. Airline premium rates declined sharply with the number of new entrants coming into the direct aviation market hitting record numbers as they diversified away from the US coast line. They are currently writing business at loss-making rates. This will lead to disaster in the very near future as such markets will almost certainly lose money, whether there is a significant airline loss or not.

Our satellite book ran well.

The contingency account which was added at the end of 2005 performed very well and will make a positive contribution to our result for this year of account.

Overall, the 2006 year of account looks likely to produce a satisfactory profit when it comes to close, as detailed in our current forecast contained in the Managing Agent's report.

2007 Account

We increased our capacity to approximately £300 million.

By the start of 2007 a large amount of new capacity had entered our markets, mostly in a traditional form but we also saw the appearance of hedge funds who were also finding new ways of putting their capital to work. Although they did not directly impact the markets we operate in, this may change were they to become more educated and find ways of offering our clients more of what they actually want to buy. As the year began, the rating environment for our classes was generally still strong but with the supply and demand pendulum returning to balance.

At the beginning of the year, US property treaty rates continued to rise, closing the gap between the rates prevailing at the beginning of 2006 and those that applied in the middle of that year when the US property treaty market had crested.

The international treaty market had sailed on. It had been largely unaffected by the 2005 hurricane losses in the United States and continued a slow decline. The account did see losses from four events outside the US, being Windstorm Kyrill, two floods losses in the UK and the Australian floods in June. All these were well contained within our catastrophe provisions and affected both 2006 and 2007 years of account. On the plus side the Atlantic hurricane season was again a non-event which more than compensated for the international losses.

The commercial property account saw rate reductions almost from the beginning of the year. Markets which had been scared off by the hurricanes in 2005 returned with fresh vigour and short memories. The good news is that the rates for catastrophe exposed business, despite declining, were still at very high historical levels in the US. The real disappointment is that the overall income we wished to write fell below original business plan expectations but this was offset by a very good loss year. Provided the run off is relatively smooth, we would expect a useful profit.

The story on the aviation account is largely a repeat of 2006, with the reinsurance market largely holding the line on price, terms and conditions and the underlying direct market plumbing new lows. It is a real concern now as to how our client base is going to make ends meet and how long many of them can stand the heat. Those that are disciplined and reduce their accounts are threatened by being overwhelmed by expenses and those that write the business with undiminished enthusiasm will lose capital.

The satellite market, having had a very good run until 2007, saw a number of losses which will push the overall market into loss for the first time in a while. The nature of the satellite market means that some did very badly and some did not do so badly. The good news is that we fall into the latter category and that after a long while of being in the doldrums, this market is charging increased and more sustainable rates going forward.

Our contingency account had its second full year and promises to make a sound return when this year closes.

We will release the first forecast of our overall result for 2007 on a year of account basis in the middle of 2008, but given the loss experience to date, I have no reason to believe it will be other than profitable.

2007 Calendar Year Commentary

The 2007 calendar year result is made up of contributions from all open years of account (2005, 2006 and 2007) together with movements on the closed years of account (2001 to 2004) that occurred during the year. The result for the year is a profit of £42.5 million (2006: £46.7 million). There was also a gain on currency translation for the year of £1.0 million (2006: a loss of £4.9 million), which has been accounted for through the Statement of Total Recognised Gains and Losses.

The performance of the 2005 and prior years of account contributed a profit of £16.6 million to the overall calendar year result. The income of the 2005 pure year had been substantially earned at the end of the previous year-end whilst that of the prior years had been fully earned. The favourable run-off of these prior year reserves established at the previous year-end contributed a profit of circa £5.0 million. Investment income contributed £3.8 million to the result.

The 2006 year of account contributed to an annual accounting profit of £18.0 million compared with a profit of approximately £26.3 million during the previous calendar year. A significant proportion of the unearned income at 31 December 2006, relating to the 2006 year, was earned during 2007. The reserves established, at the previous year-end, in respect of loss activity that had occurred during 2006 ran-off favourably and no significant major losses in 2007 impacted the year further. These factors combined to produce a profit of £14.4 million which was supplemented by a positive investment return of £3.7 million.

The performance of the 2007 account contributed a profit of £7.9 million to the calendar year result of which £2.5 million related to investment income. This result reflects the relatively benign catastrophe year although not as benign as the 2006 year of account in the 2006 calendar year. At the year-end approximately 58% of the net premiums written had been earned.

Further details of the Syndicate's calendar year result are set out in the Managing Agent's Report.

Future prospects

2008 has started with rate declines in almost every line of business we are in. This is really no surprise given two hurricane free years. We take some consolation in the fact that most areas of business where we do not operate, such as direct aviation, energy, liability business, both international and US and marine hull business have generally been in decline for much longer than the areas we write. The hope is that these lines will reach the bottom before our business lines and cause a reaction which affects all classes positively.

The current sub-prime/banking/credit crisis means that financial markets generally are now in some distress. The impact on property and casualty insurers and reinsurers is unfolding. As well as undermining the asset side of some insurers' balance sheets, in time it will probably seriously affect the liability side of some as well. This, and the inevitable consequences of some of the more ill-judged diversification strategies, will eventually hit home. Furthermore, whilst the timescale of all this is presently uncertain, should this year see a major capital-destroying loss like a major windstorm or earthquake, then the current appetite and ability of capital markets to replenish and re-launch the otherwise imperilled or set up the next generation of start-ups as happened post Katrina is likely to be severely curtailed. This for instance could make for an interesting aftermath to an active hurricane season, should we see one this year.

Underwriter's Report

continued

Short term capital brings short term thinking; this describes the nature and response of many of our competitors at the moment. It is not easy dealing with the opposition when they are out to make a quick buck but we will continue to take opportunities when they arise and to not bet the farm while we are doing it. We have a very experienced team at Cathedral all of whom have seen soft markets in the past and know how they work and how to work them, as we have to date. We will continue to manage exposure and not chase premium.

Concluding comments

A successful syndicate is a team effort. My thanks therefore go to my underwriting colleagues, Mark Wilson, Nick Destro and Simon Dean (our non-marine treaty underwriters), Richard Williams and Dan Warburg (our aviation underwriters), Simon King and Richard Wood (our direct and facultative property underwriters), Justin Burns and Katie Spicer (our contingency underwriters) and Steve Gentili our aggregation manager, together with the syndicate's entire support team to whom we all owe a great deal.

J C Hamblin
Active Underwriter

19 March 2008

Managing Agent's Report
At 31 December 2007

Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2007, together with the Chairman's Statement and the Underwriter's Report. The Syndicate commenced trading for the 2001 year of account.

This Annual Report includes the Annual Accounts for the year ended 31 December 2007 and the Underwriting Year Accounts for the 2005 Year of Account. The annual accounting result for the 2007 calendar year was £42.5 million (2006: £46.7 million). This consists of a contribution from all open years of account (2005, 2006 and 2007) together with any movement on the closed years of account (2001 to 2004) that occurred during the year. An analysis, by year of account, of the annual accounting result is included later in this report.

The 2005 Year of Account closed at 31 December 2007 with a profit of £20.9 million. This includes movements on the closed years of account.

The auditors, Mazars LLP, have included two separate "True and Fair" audit opinions within the Annual Report – one covering the annual accounting result for 2007 and the other the closing year of account result for 2005.

The Managing Agent

Cathedral Underwriting Limited is the managing agent for Syndicate 2010. It also acts as managing agent for Syndicate 3010. Cathedral Underwriting Limited is authorised and regulated by the UK's Financial Services Authority ("FSA") and Lloyd's.

Syndicate	Principal class of business	Active underwriter	2007 Capacity £'000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	J C Hamblin	299,751
3010	Marine cargo	J C Hamblin	20,000

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Limited (previously called Disciple Topco Limited). Alchemy Partners Nominee Limited has a 56.1% interest in Cathedral Capital Limited and is therefore deemed to be the controller of the managing agency and has been approved as such by both Lloyd's and the FSA.

Multiple syndicates consent

The council of Lloyd's on 25 July 2007 confirmed that Alasdair Butler and Lee Aspinall of Syndicate 3010 were approved under the Multiple Syndicates Byelaws (No.5 of 1989) to underwrite for syndicates 2010 and 3010. This approval is given only in respect of FTC business that is to be written into Syndicate 2010.

Directors' shareholdings

The directors who served during the year and their interests and that of their families in the share capital of Cathedral Capital Limited as at 31 December 2007, were as follows:

		31 December 2007		31 December 2006	
		"B" Ordinary 1 pence Shares	**Ordinary 1 pence Shares**	"B" Ordinary 1 pence Shares	Ordinary 1 pence Shares
D C Grainger	Compliance Director	**14,411**	**11,812**	14,411	11,812
J C Hamblin	Director	**21,041**	**33,413**	21,041	33,413
L A Holder	Managing Director	**21,041**	**33,413**	21,041	33,413
J A Lynch	Finance Director	**21,634**	**33,413**	21,634	33,413
E E Patrick	Non-Executive Director	**9,388**	**9,788**	9,388	9,788
P D Scales	Director	**21,634**	**33,413**	21,634	33,413

Messrs Andrews, South and Tilling, who also served during the year, have no interest in the share capital of Cathedral Capital Limited.

The following directors (including their families) have an interest in the preference shares issued by Cathedral Capital Limited and the Manager loan notes issued by Cathedral Capital (Investments) Limited (previously called Disciple Holdco Limited).

	31 December 2007		31 December 2006	
	Preference £1 Shares	**Loan Notes £**	Preference £1 Shares	Loan Notes £
D C Grainger	**562,561**	**1,125,290**	562,561	1,125,296
J C Hamblin	**821,356**	**1,642,958**	821,356	1,642,958
L A Holder	**821,356**	**1,642,958**	821,356	1,642,958
J A Lynch	**844,489**	**1,689,232**	844,489	1,689,232
E E Patrick	**366,699**	**733,509**	366,699	733,509
P D Scales	**844,489**	**1,689,232**	844,489	1,689,232

The Cathedral Group has an Employee Share Ownership Plan ("ESOP") in which all employees are potential beneficiaries. As such, all directors who are full time employees of the Cathedral Group have a potential interest in the shares (and other assets) held by the ESOP. The interests of the ESOP are as follows:

31 December 2007			31 December 2006		
Cathedral Capital Limited		**Cathedral Capital (Investments) Limited**	Cathedral Capital Limited		Cathedral Capital (Investments) Limited
"B" Ordinary 1 pence Shares	**Preference £1 Shares**	**Manager Loan Notes £**	"B" Ordinary 1 pence Shares	Preference £1 Shares	Manager Loan Notes £
17,054	**665,733**	**1,331,666**	17,054	665,733	1,331,666

Mr J S Goldsmith, who was appointed a non-executive director of Cathedral Underwriting Limited on 10 January 2008, does not have an interest in the share capital of the Cathedral Group.

Directors and their participations in Syndicate 2010

None of the directors of Cathedral Underwriting Limited participate directly as Names on the Syndicate. Certain of the directors do, however, own shares in the ultimate parent company, Cathedral Capital Limited, which owns 100% of the interest in the corporate member Cathedral Capital (1998) Limited which has a £135.2 million, £169.2 million and £173.4 million participation in the 2006, 2007 and 2008 years of account respectively. In addition, one of the directors is a director of a number of corporate names which had, in aggregate, £1.5 million, £2.1 million and £1.7 million participations on the 2006, 2007 and 2008 years of account respectively.

Active Underwriter

John Hamblin was appointed active underwriter on 30 November 2001 having joined the Syndicate on 1 January 2001 as deputy underwriter. He had previously been active underwriter for Syndicate 566.

Registered Office/accounting records

The registered office and principal place of business of Cathedral Underwriting Limited is 5th Floor, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EN. Telephone 020 7170 9000; Fax 020 7170 9001; Email info@cathedralcapital.com; Website www.cathedralcapital.com. The accounting records are kept at the registered office.

Management of Syndicate 2010

The Board of Cathedral Underwriting Limited is ultimately responsible for the management of the Syndicate and has delegated responsibilities for its day-to-day management to the active underwriter and a management board which includes senior management and underwriting representatives of Syndicate 2010 together with representatives of the Managing Agent's Board.

2007 Calendar Year

This Annual Report includes the results, for the calendar year, on an annual accounting basis, and is prepared in accordance with Schedule 9A to the Companies Act 1985 and applicable accounting standards. The accounting policies that have been adopted to produce the annual accounting results are set out in full on pages 27 to 29.

Results

The overall calendar year result is the aggregate of the calendar year results of all years of account. The results are all from continuing operations. The annual accounting result is a profit of £42.5 million in the year (2006: £46.7 million) and this can be analysed as follows:

	2005 * account £'000	2006 account £'000	2007 account £'000	31 December 2007 £'000	31 December 2006 £'000
Gross earned premium	**2,378**	**74,863**	**140,367**	**217,608**	219,227
Reinsurers' share	**659**	**(6,977)**	**(45,722)**	**(52,040)**	(48,901)
Net earned premium	**3,037**	**67,886**	**94,645**	**165,568**	170,326
Gross claims incurred	**12,210**	**(37,350)**	**(57,436)**	**(82,576)**	(88,258)
Reinsurers' share	**(476)**	**671**	**1,692**	**1,887**	10,769
Net claims incurred	**11,734**	**(36,679)**	**(55,744)**	**(80,689)**	(77,489)
Net Operating Expenses	**(1,931)**	**(16,847)**	**(33,519)**	**(52,297)**	(51,882)
Balance on Technical Account before investment return	**12,840**	**14,360**	**5,382**	**32,582**	40,955
Net Investment Income	**3,755**	**3,681**	**2,524**	**9,960**	5,707
Profit for the financial year	**16,595**	**18,041**	**7,906**	**42,542**	46,662

* The 2005 account includes the movement in the 2001 to 2004 accounts which have closed into the 2005 account.

Premiums above are grossed up for brokerage.

The insurance and reinsurance contracts underwritten by the Syndicate are earned over the life of the policy, normally commencing at the inception of the policy. An earnings pattern is established for each class of business written by the Syndicate and these earnings patterns are applied at an individual policy level. The earning patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2007 include premiums on policies incepting during 2007 together with estimates for premiums and adjustments to premiums on policies incepting in prior periods. The gross and net earned premiums can be analysed as follows:

	31 December 2007		31 December 2006	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Non-marine reinsurance	**83,307**	**61,586**	73,946	49,798
Aviation	**37,252**	**28,881**	39,401	30,708
Satellite	**3,263**	**2,775**	6,292	4,496
Direct & facultative property	**79,463**	**59,026**	77,763	64,145
Contingency	**7,772**	**6,749**	6,730	5,959
Other	**6,551**	**6,551**	15,095	15,220
Total	**217,608**	**165,568**	219,227	170,326

At the year end the Syndicate had net unearned premiums of £72.8 million (2006: £77.3 million) on the balance sheet.

Managing Agent's Report
At 31 December 2007

continued

The impacts of major losses on the account are individually assessed. In addition, an attritional loss ratio has been determined for each class of business written by the Syndicate. Attritional losses on an annual accounting basis are derived by applying the estimated attritional ultimate loss ratios to the earned premium. This presumes that the attritional loss ratios remain the same over the year of account. However where appropriate, adjustments are made to the attritional loss ratio applied to the earned premiums.

The annual accounting result includes the impact of any losses identified with a date of loss in 2007 regardless of the year of account when the cover incepted. When a loss occurs, the full impact of that loss (gross and net) is recognised at that time. The Underwriter's Report contains further detail of loss activity during calendar year 2007.

The 2007 combined ratio is 78.0% (2006: 74.7%). This combined ratio is expressed as a percentage of Net Earned Premiums and excludes investment return, profit commission and any other gains and losses that have been accounted for through the Statement of Total Recognised Gains and Losses. The combined ratio is analysed as follows:

	31 December 2007		31 December 2006	
	Gross %	**Net %**	Gross %	Net %
Claims Ratio:				
Non-marine reinsurance	**37.3**	**50.8**	41.0	46.1
Aviation	**51.4**	**64.2**	45.2	57.1
Satellite	**131.0**	**135.3**	28.7	33.9
Direct & facultative property	**27.3**	**35.1**	32.5	35.2
Contingency	**43.2**	**49.8**	47.7	52.7
Other	**46.2**	**46.4**	65.0	64.4
Total Claims Ratio	**37.9**	**48.7**	40.3	45.5
Expense Ratio	**22.3**	**29.3**	22.7	29.2
Combined Ratio	**60.2**	**78.0**	63.0	74.7

The combined ratio excludes managing agent's profit commission and is the basis used throughout these financial statements.

The expense ratio includes brokerage on inwards business which accounts for approximately 72% of the net operating expenses. The operating expenses are set out in more detail in Note 4 on page 32.

The Annual Report includes a Statement of Total Recognised Gains and Losses. The purpose of this statement is to show the extent to which members' funds have increased or decreased following the recognition of all gains and losses in the period and also reflects any change in the basis of accounting from the previous year.

Statement of Managing Agent's Responsibilities

Cathedral Underwriting Limited as managing agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Regulations") require the managing agent to prepare annual accounts for the Syndicate at 31 December each year which give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

In preparing these Syndicate annual accounts, the managing agent is required to:

a) select suitable accounting policies which are applied consistently, with the exception of any changes arising on the adoption of new accounting standards in the year;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed, subject to any material differences disclosed and explained; and
d) prepare the financial statements on a going concern basis unless it is inappropriate to presume that there will be future years of account of the syndicate.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Regulations and the relevant provisions of the Companies Act 1985. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year of Account

Members' Agents

The following members' agent has provided more than 20% of the Syndicate's allocated capacity for the 2006, 2007 and 2008 years of account.

	2008 account		2007 account		2006 account	
Name of Agent	**£'000**	**%**	£'000	%	£'000	%
Hampden Agencies Limited	**234,435**	**78.1**	248,274	82.8	171,617	68.7

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Cathedral Group company, provided £135.2 million, £169.2 million and £173.4 million respectively of the capacity to Syndicate 2010 for the 2006, 2007 and 2008 years of account through Hampden Agencies Limited.

Capacity by member type and year of account

	2008 account		2007 account		2006 account	
	£'000	**%**	£'000	%	£'000	%
Syndicate allocated capacity attributable to:						
Corporate members	**252,149**	**84.0**	242,518	80.9	182,520	73.1
External members	**45,611**	**15.2**	54,504	18.2	64,225	25.7
Working members *(none of whom are employed by the managing agency)*	**2,245**	**0.8**	2,729	0.9	2,947	1.2
	300,005	**100.0**	299,751	100.0	249,692	100.0

Result

The 2005 account closed with a profit of £22.7 million, before personal expenses. For a natural name with standard personal expenses, this equates to a profit of 8.0% of capacity, before members' agency fees.

This result is marginally better than previously forecast by the managing agent. The losses that impacted the 2005 account, which were reported on in detail in last year's Annual Report, ran off as expected during 2007 and indeed there were some releases from the favourable run off of the earlier years of account that had closed into the 2005 account at 31 December 2006. However, the result of the 2005 account, which closed at 31 December 2007, was impacted by a weak US dollar although the investment return benefitted from the reversal of the direction of the interest rates seen during the course of the year. The analysis of the 2005 closed year result, before personal expenses, by member type is as set out below:

	2005 account	
	£'000	%
Result attributable to:		
Corporate members	16,408	72.2
External members	6,029	26.5
Working members *(none of whom are employed by the managing agency)*	278	1.3
	22,715	**100.0**

2006 account forecast

The forecast 2006 year of account result, on the traditional three year Lloyd's basis after charging standard managing agent's fees and profit commission, but before charging members' agents fees, is in the range of 15% to 20% of Syndicate capacity at 31 December 2007.

This forecast has been based on the following assumptions:

- Future claims development will follow an expected pattern. In particular, the incidence or development of major or attritional losses or in the ability of the Syndicate's reinsurers to respond to potential reinsurance recoveries will not materially diverge from expectations based on developments to date;
- No material changes occur in estimates as to ultimate income levels and future reinsurance costs;
- There will be no material reinsurance failure;
- There will be no material surplus or deficiency arising from the reinsurance to close of the 2005 year of account;
- There will be no significant changes in the regulatory or legislative policies which will affect the activities of the Syndicate; and
- Interest, inflation and exchange rates as at 31 December 2008 will not differ significantly from those taken into account in the forecast.

This forecast result assumes that standard personal expenses before members' agency fees, including managing agency fees of 0.65% and profit commission of 17.5% are charged to all Names on the Syndicate for the 2006 year of account. Cathedral Underwriting Limited, does not charge profit commission to Cathedral Capital (1998) Limited, a wholly owned fellow subsidiary within the Cathedral Group.

Historical summary of results

A summary of results for all of the closed years of account of the Syndicate is set out on page 57 of this annual report.

Description of business and methods of acceptance

The Syndicate commenced underwriting for the 2001 year of account. For the 2001 and 2002 underwriting years, the Syndicate's account was made up of two pillars, those of aviation and non-marine reinsurance. In 2003, a direct and facultative property account was introduced which was developed during 2004 to constitute a full third pillar of the Syndicate's business.

Since its inception for the 2001 underwriting year, Syndicate 2010 has not been regarded as a new venture by customers and brokers, but as a new home for established underwriting teams. This has enabled the Syndicate to build its books of business based on long standing relationships with clients and their brokers and not on pricing considerations alone.

The non-marine reinsurance account is built around a core book comprising catastrophe reinsurances of regional North American companies. These companies generally write in a tightly defined geographical area. Their underlying accounts are largely made up of domestic properties, cars and small commercial risks. Where we write accounts with more nationwide exposures, these tend to protect more specialist companies writing the likes of churches, agricultural risks, farms or similar risks which are spread by their nature. These companies have proved very loyal and continue to value their relationships with London underwriters.

The Syndicate also writes an international book which is largely focused on companies in the developed nations – Europe, Australia and Japan. We do write in other areas of the world, but these exposures are more modest.

Often, hand in hand with the catastrophe programme, comes the risk excess programme. This protects companies from exposure to large individual risk losses. We have built a more modest portfolio of this business which includes US national as well as regional and international cedants.

We also write a small book of retrocession business, which is reinsurance of other reinsurers. There are no spiral exposures in this account as these were eliminated from this business in the early 1990's.

The aviation account is built around a core book which protects insurers of airlines or major aviation manufacturers against catastrophic loss. In general this account requires a market loss of $400-$500 million or more to involve us to any material degree, but we will accept business at lower levels if the price is attractive. Again, we have a small amount of retrocessional business which, as with non-marine, contains no spiral exposure.

We are also involved in the aviation war market and the general aviation (light aircraft) market.

We have continued our long involvement with SATEC, a specialist Venice based satellite underwriting agency to which we delegate underwriting authority. The Syndicate also writes satellite excess of loss.

From 2003, the Syndicate began writing a direct and facultative property account. The account written covers a broad spectrum of commercial property business with a global spread of business, but with a leaning towards the United States. It falls into two main areas:

(i) Open market business which encompasses the whole range of risk sizes from large complex property schedules down to small single locations; and
(ii) Delegated binding authority business which targets smaller property risks principally in the US, Canada, Australia and Europe.

From mid-2003 the Syndicate wrote a fire theft and collision account (FTC). This was largely discontinued in the second half of 2006, although a modest account continues to be written.

From the final quarter of 2005 the Syndicate has written a contingency account focused on non appearance insurance.

Going forward, Syndicate 2010 intends to retain its focus on these accounts and will continue to seek opportunities within these classes.

Reinsurance protection

The non-marine reinsurance portfolio is protected by separate catastrophe and risk excess programmes. Original loss warranty ("OLW") and proportional treaties are also employed.

On the aviation account, separate excess of loss protections are purchased for the main reinsurance account, the general aviation account and the war account. As with the non-marine account, OLW and proportional treaties are also employed.

The direct and facultative property account has separate catastrophe and risk excess programmes.

The satellite account has proportional treaty protection.

The contingency account also has separate excess of loss protection.

Every effort is made to ensure that the security from which cover is purchased is of a good quality, but it must be emphasised that even the most scrupulous approach in this area does not obviate the potential for reinsurance failure to occur.

Syndicate investments

Investment policy

The Syndicate funds were managed on a day-to-day basis by investment managers who in turn are monitored by an investment committee in accordance with the policy and terms of reference agreed by the Board of Cathedral Underwriting Limited. The investment committee has formal procedures for monitoring investments in line with guidance from Lloyd's.

Credit Agricole Asset Management (UK) Limited ("CAAM") is the investment manager of the US Dollar Trust Funds and also a proportion of both the Syndicate's Euro and Canadian Dollar Trust Funds.

The investment policy adopted with respect to the syndicate funds is designed to balance liquidity, security and investment risk so as to enable the Syndicate to meet its commitments as and when they fall due.

The investment objective for CAAM is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints and in line with policies approved by the board of Cathedral Underwriting Limited. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. CAAM have been instructed to invest for the highest total return consistent with maintaining adequate liquidity and security and they have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price conditions.

CAAM's performance is measured against Merrill Lynch 1-3 year Government Index of the domestic Government bond market for each Trust Fund which are the benchmarks defined by the investment committee.

Investment performance

The first half of 2007 appeared to be one of continued economic growth and rising inflationary pressures. However the sub-prime crisis and consequent credit crunch forced most major monetary authorities to change course and acknowledge that, what appeared to be an isolated domestic issue looked likely to spread wider, and continue for longer, than initially expected. Having held US Fed Funds steady at 5.25% for the first half of 2007, the ensuing credit conditions forced the Federal Reserve Bank to cut interest rates aggressively to 4.25% by year-end, with financial markets pricing in further cuts and a high probability of economic recession.

Similarly, having seen the first bank run for over 100 years, the UK's MPC was forced to lower interest rates from 5.75% to 5.5%. Signs that growth was slowing, spending moderating and financial market conditions deteriorating were all cited as reason for the relaxation in lending conditions. Stubbornly high inter-bank rates leave further cuts likely through 2008. The UK housing market continues to weaken and could create additional economic drag, but this is not expected to be of the same severity and impact as that in the US.

The Bank of Canada raised rates 25bp to 4.5% in July, citing strong economic growth and building inflationary pressures. By December, the deterioration in conditions south of the border, and the relentless ascent of the currency versus the US Dollar, forced a reversal in policy with a 25bp cut. The ECB has been less active in alleviating tight lending conditions keeping the Repo rate steady at 4.0%; having increased rates 50bp during the first half of 2007. The ECB are more likely to encourage member states to speed up structural reforms, freeing up labour markets and raising productivity with the aim of increasing the potential non-inflationary growth rate.

Deteriorating credit conditions have created a crisis in confidence such that price is no longer a parameter for investors looking to reduce risk. As such Government bonds, in particular in the US, rallied significantly with 2 year US Government bond yields falling by around 3% in the second half of the year. The corollary of this was that credit spreads ended the year significantly wider. Consequently investment returns were higher than expected for investors in high grade fixed income, but holders of lower rated, or longer dated, non-Government bonds saw capital losses erode margins, underperforming Governments. The syndicate's portfolios have been invested in line with the Investment Manager's view that credit spreads were too tight and have thus been underweight credit for the second half of 2007, protecting the syndicate from the negative price action in the credit markets. Duration was shortened in 2007 which, whilst not taking full advantage of falling yields in long dated Treasuries, minimised the impact of Corporate bond spread widening.

Investment returns were at the top end of estimates made at the beginning of 2007 and comfortably above credit market indices in all currencies.

Net cash-flows were positive over the year with invested assets up by around $55 million, having a positive effect on total investment earnings. The overall calendar year investment yield was 6.0% compared to 4.1% in 2006.

Investment strategy

CAAM, our investment manager, writes:

> "2008 looks set to be a very difficult year for the major monetary authorities stuck between growing credit and economic growth risks on the downside and the expectation of inflationary pressures remaining to the upside. Conditions in credit markets may well deteriorate further with continued credit spread widening likely. Low bond yields and falling cash rates mean that returns in 2008 will, in most currencies, be lower than 2007 in all currencies. Euro returns may be the exception as the ECB has been reluctant to cut interest rates and bond yields finished 2007 marginally higher than at the start of the year. The potential for negative capital price movements means that durations will likely be kept short from the beginning of 2008, in line with the investment objective of protecting the portfolio against unnecessary losses. Nevertheless, wider credit spreads mean that the opportunity will be taken to allocate the portfolio to attractively priced, highly rated, non-Government paper when the opportunities arise and markets permit. It is unlikely that this risk allocation will extend to lower rated corporates as event risk remains high, particularly in the Financials sector".

Stock lending

The board of Cathedral Underwriting Limited prohibits CAAM from entering into any stock lending arrangements on behalf of the Syndicate.

Foreign exchange hedging

The managing agency, in so far as possible, matches assets and liabilities, by currency, within the Syndicate. To date, the managing agency has not entered into any transaction to "hedge" the foreign exchange exposure to the non-sterling (US Dollars, Canadian Dollars or Euro) currencies held within the Syndicate's premium trust funds. The managing agency will continue to keep this possibility under review and may at some future date enter into such transactions.

Bank facilities

The Syndicate has a number of banking facilities with Barclays Bank plc the main two being an overdraft, to assist in paying expenses and reinsurance purchases, and a Catastrophe facility, to assist in paying claims and gross funding of exceptional catastrophes.

The United States $80 million Catastrophe facility was renewed in January 2008 on expiring terms. United States $50 million can be utilised by way of Letter of Credit ("LOC") to assist the Syndicate's gross funding requirements. The facility was not utilised during calendar 2007.

Syndicate capital requirement

The capital framework at Lloyd's requires each managing agent in the market to calculate the capital requirement for each syndicate they manage, a process called Individual Capital Assessment ("ICA"). The FSA require the ICA to be calibrated at a confidence level of 99.5% over a twelve month time horizon.

The ICA of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at member level to uplift the calculated ICA (including the need to maintain the market's overall security rating). This produces a Syndicate Economic Capital Requirement ("ECA").

The ICA is predominantly based on syndicate specific data and the annual syndicate business forecast which is submitted to Lloyd's for approval prior to the commencement of an underwriting year. ICA's were first prepared for the 2005 account and submitted to Lloyd's as a "soft test". However, the ICA's submitted for the 2006, 2007 and 2008 accounts have been used by Lloyd's to determine capital at member level. Each submission is based on net premium income (as determined from the relevant syndicate business forecast).

The table below summarises Syndicate 2010's ICA return for the 2006, 2007 and 2008 accounts. These figures are as submitted to and approved by Lloyd's. The only additional loading imposed by Lloyd's to determined the syndicate's ECA was the market-wide capital loadings of 35% applied to all syndicates for all three years.

		2008		2007		2006
	£'000	**%***	£'000	%*	£'000	%*
ICA	**130,900**	**43.6**	125,600	41.8	129,705	51.9
Lloyd's Loading	**45,800**	**15.3**	43,960	14.7	45,397	18.2
ECA	**176,700**	**58.9**	169,560	56.5	175,102	70.1
Stamp capacity	**300,005**		299,751		249,692	

* Note: % = percentage of stamp capacity

Principal risks impacting the Syndicate

The Syndicate is exposed to a variety of risks when undertaking its activities all of which are taken into account when setting the ICA of the Syndicate. The board has policies and procedures in place to identify and manage the key risks in accordance with its risk appetite. These largely relate to:

- Insurance risk;
- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Insurance risk

The Syndicate has exposure to insurance risk (including reserving risk). Key areas where it is exposed to insurance risk are:

- Frequency of claims – the risk that the business written is subject to an unexpected frequency of claims;
- Severity of claims – the risk that the syndicate is subject to an unexpected severity of claim;
- Unknown/unexpected accumulations – the risk that risks accumulate to an extent or in a manner that is unexpected;
- Wording issues – the risk that wordings are interpreted to provide coverage in a manner or to an extent which is beyond that intended;
- Inadequate pricing – the risk that business written is under-priced for the risk assumed;
- Lack of reinsurance cover - the risk that reinsurance of a type or quantum necessary to effectively manage the gross exposures assumed is either unavailable or unavailable at a viable cost;
- Inappropriate reinsurance – the risk that the syndicate assumes gross exposures on the basis that effective reinsurance protection of a type or quantum is available and for that to prove not to be the case; and
- Reserving risk – the risk that provisions in respect of already incurred claims prove inadequate.

The loss development tables that follow provide information about historical claims development.

Underwriting year - Gross	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
12 months	181%	46%	50%	88%	157%	28%	41%
24 months	141%	34%	29%	76%	121%	36%	-
36 months	148%	30%	27%	76%	115%	-	-
48 months	143%	29%	26%	73%	-	-	-
60 months	139%	29%	25%	-	-	-	-
72 months	137%	29%	-	-	-	-	-
84 months	136%	-	-	-	-	-	-

Underwriting year - Net	2001	2002	2003	2004	2005	2006	2007
12 months	93%	58%	53%	69%	88%	39%	59%
24 months	79%	44%	32%	56%	73%	45%	-
36 months	74%	37%	29%	56%	67%	-	-
48 months	70%	36%	28%	53%	-	-	-
60 months	68%	36%	28%	-	-	-	-
72 months	68%	35%	-	-	-	-	-
84 months	66%	-	-	-	-	-	-

The loss ratios above are in respect of the pure year of account and are cumulative annually accounted loss ratios at each stage. In effect, the table highlights the Syndicate's ability to provide a robust estimate of the claims costs, although it should be noted that any losses in year two will not be recognised at the 12 months stage under annual accounting.

Credit risk

The Syndicate has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where it is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries; and
- Assets held as financial investments.

Liquidity risk

The Syndicate has exposure to liquidity risk. Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis. Where insufficient liquid funds exist, the Syndicate can cash call the Names supporting it and can ultimately drawdown from the Names' Funds at Lloyd's.

Market risk

The Syndicate has exposure to market risk. This includes the risks associated with interest rate and currency movemments which can alter the value of funds invested and the Sterling translated value of its assets and liabilities.

Operational risk

The Syndicate has exposure to operational risk. This includes risks associated with:

- the failure of the management controls;
- loss, failure or corruption of information technology systems;
- loss of key management and underwriting personnel;
- legal and regulatory issues; and
- other operational disruption.

Risk Management

All areas of risk are subject to the managing agency's risk management framework and enterprise wide risk management practices and controls.

Managing Agent's Report At 31 December 2007

continued

Sub contracted functions

The managing agent has sub contracted the following functions:

Investment management:	Credit Agricole Asset Management (UK) Limited
Software support:	Insurance Technology Solutions Limited

Actuaries

Lane Clark and Peacock acted as reporting actuaries to the Syndicate for the period under review.

Statement as to disclosure of information to auditors

The directors of the managing agent at the date of this report have individually taken all necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the Syndicate auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the auditors are unaware.

Advanced consents procedure notifications

Names Annual General Meeting Notice
In line with the conditions and requirements prescribed under paragraph 2(3) of the Syndicate Meetings Byelaw, notice is hereby given that the managing agent does not propose to hold an annual general meeting of the members of the Syndicate.

Agency and Syndicate Auditor
Mazars LLP are the independent auditors to all of the Cathedral Group companies and the Syndicate. Mazars LLP has signified its willingness to continue in office as the independent auditor to both the managing agent and the Syndicate and it is the intention of the managing agent to reappoint, in accordance with Lloyd's regulations, Mazars LLP for a further year with effect from 1 May 2008.

The safeguards against conflicts of interests arising from the same audit firm being auditors to both the managing agent and the Syndicate remain the same as stated in our memorandum dated 22 June 2004, as amended by that of 21 September 2006, addressed to Members' Agents and Direct Corporate Capital Providers, copies of which are available on request to all Syndicate members

Names have until 21 April 2008 to advise the compliance director of Cathedral Underwriting Limited at the address below of any objections in relation to any of the above matters.

By order of the Board

L A Holder
Managing Director
Cathedral Underwriting Limited
5th Floor, Fitzwilliam House
10 St. Mary Axe, London EC3A 8EN

19 March 2008

SYNDICATE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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Report of the Independent Auditors to the Members of Syndicate 2010

We have audited the syndicate annual accounts of Syndicate 2010 for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and related notes as set out on pages 22 to 38. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Managing Agent's Responsibilities on pages 10 and 11.

Our responsibility, as independent auditors, is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view, whether the syndicate annual accounts are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, and whether the information given in the Managing Agent's Report is consistent with the syndicate annual accounts. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the remuneration of the directors of the managing agent and other transactions is not disclosed.

We read other information attached to the syndicate annual accounts and consider whether it is consistent with the audited syndicate annual accounts. This other information comprises the Managing Agent's Report, the Chairman's Statement and the Underwriter's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice. of the state of affairs of Syndicate No 2010 as at 31 December 2007 and of its profit for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

MAZARS LLP
CHARTERED ACCOUNTANTS and Registered Auditors

Tower Bridge House, St Katharine's Way, London E1W 1DD
19 March 2008

CATHEDRAL
SYNDICATE 2010

Profit and Loss Account
Technical Account - General Business
For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	**212,454**	225,576
Outward reinsurance premiums		**(51,310)**	(50,935)
Net premiums written		**161,144**	174,641
Change in the provision for unearned premiums:			
Gross amount		**5,154**	(6,349)
Reinsurers' share		**(730)**	2,034
Earned premiums, net of reinsurance		**165,568**	170,326
Allocated investment return transferred from the non-technical account		**9,960**	5,707
Claims paid:			
Gross amount		**(81,322)**	(152,406)
Reinsurers' share		**22,524**	71,092
		(58,798)	(81,314)
Change in the provision for claims:			
Gross amount		**(1,254)**	64,148
Reinsurers' share		**(20,637)**	(60,323)
		(21,891)	3,825
Claims incurred, net of reinsurance		**(80,689)**	(77,489)
Net operating expenses	4	**(52,297)**	(51,882)
Balance on the technical account for general business		**42,542**	46,662

All items relate to continuing operations only.

The notes on pages 27 to 38 form part of these accounts.

Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Balance on the general business technical account		**42,542**	46,662
Investment income	8	**7,795**	6,140
Unrealised gains on investments		**2,534**	357
Investment expenses and charges	9	**(298)**	(543)
Unrealised losses on investments		**(71)**	(247)
Allocated investment return transferred to the general business technical account		**(9,960)**	(5,707)
Profit for the financial year	15	**42,542**	46,662

Statement of Total Recognised Gains and Losses
For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Profit for the financial year	15	**42,542**	46,662
Currency translation differences	15	**1,006**	(4,946)
Total recognised gains and losses since last annual report		**43,548**	41,716

The notes on pages 27 to 38 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

Balance Sheet
As at 31 December 2007

	Notes	2007 £'000	2006 £'000
Investments:			
Financial investments	10	**176,346**	148,279
		176,346	148,279
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**5,970**	6,782
Claims outstanding		**59,059**	80,743
		65,029	87,525
Debtors:			
Debtors arising out of direct insurance operations			
- Intermediaries	11	**16,884**	22,321
Debtors arising out of reinsurance operations	12	**56,436**	55,458
Other debtors	13	**2,499**	2,306
		75,819	80,085
Other assets:			
Cash at bank and in hand		**12,776**	3,529
Other	14	**11,610**	9,434
		24,386	12,963
Prepayments and accrued income:			
Deferred acquisition costs		**14,341**	15,250
Other prepayments and accrued income		**503**	660
		14,844	15,910
Total assets		**356,424**	344,762

The notes on pages 27 to 38 form part of these accounts.

	Notes	2007 £'000	2006 £'000
Capital and reserves:			
Members' balances	15	**68,553**	50,635
		68,553	50,635
Technical provisions:			
Provision for unearned premiums		**78,806**	84,058
Claims outstanding		**188,235**	187,461
		267,041	271,519
Creditors:			
Creditors arising out of direct insurance operations	16	**120**	455
Creditors arising out of reinsurance operations	17	**14,313**	17,064
Other creditors including taxation and social security	18	**6,068**	4,813
		20,501	22,332
Accruals and deferred income		**329**	276
Total liabilities		**356,424**	344,762

The Syndicate annual accounts on pages 22 to 38 were approved by the Board of Cathedral Underwriting Limited on 19 March 2008 and were signed on its behalf by

L A Holder
Managing Director

J A Lynch
Finance Director

19 March 2008

The notes on pages 27 to 38 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

Statement of Cash Flows
For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Reconciliation of profit to net cash inflow from operating activities			
Profit for the financial year		**42,542**	46,662
Realised and unrealised investments (gains)/losses on cash and investments, including currency movements		**(4,833)**	14,505
Income from investments		**(7,529)**	(5,678)
Interest payable		**17**	8
Decrease/(increase) in debtors, prepayments and accrued income		**5,332**	52,422
Increase/(decrease) in net technical provisions		**18,018**	(19,763)
(Decrease) in creditors, accruals and deferred income		**(1,778)**	(21,086)
Exchange gains/(losses)		**1,006**	(4,945)
Net cash inflow from operating activities		**52,775**	62,125
Returns on investment and servicing of finance:			
Interest paid		**(17)**	(9)
Interest received		**7,529**	5,678
Transfer to members in respect of underwriting participations		**(25,630)**	(26,959)
Increase in cash and portfolio investments in the year	19	**34,657**	40,835
Cash flows were invested as follows:			
Increase in cash holdings	19	**9,099**	125
Net portfolio investments	20	**25,558**	40,710
Net investment of cash flows		**34,657**	40,835

The notes on pages 27 to 38 form part of these accounts.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2007

1 Basis of Preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (revised in December 2006) ("the ABI SORP").

2 Accounting Policies

(a) *Basis of accounting*

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(b) *Underwriting*

(i) *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(ii) *Unearned premiums*

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(iii) *Reinsurance premium ceded*

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) *Claims incurred*

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

(v) *Claims provisions and related recoveries*

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on a detailed review of losses and loss development by management and further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

Notes to the Accounts
For the year ended 31 December 2007

continued

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The Syndicate uses a number of statistical techniques to assist in making the above estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(vi) *Unexpired risks provision*

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return.

(vii) *Acquisition costs*

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(c) *Foreign currencies*

Transactions in US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date of the transaction or at an appropriate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used. Differences arising on the re-translation of foreign currency amounts are included in the Statement of Total Recognised Gains and Losses.

(d) *Investments*

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid price value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date. The Syndicate holds cash balances which are swept overnight into pooled arrangements. These balances have been classified as investments.

(e) *Investment return*

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the Technical Account General Business to reflect the investment return on funds supporting underwriting business. All investment return is deemed to arise on such funds.

(f) *Taxation*

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 22%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the Balance Sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

(g) *Pension costs*

Cathedral Underwriting Limited operates a defined contribution pension scheme and it recharges to the Syndicate staff costs which include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

(h) *Operating lease rentals*

Amounts recharged by Cathedral Underwriting Limited include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2007

continued

3 Particulars of business written

An analysis of the technical account balance before investment return is set out below:

Year ended 31 December 2007

Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Motor (third party liability)	482	412	(372)	(140)	-	(100)
Motor (other classes)	1,042	4,563	(1,784)	(1,104)	(30)	1,645
Marine aviation and transport	1,239	2,116	(2,751)	(478)	(74)	(1,187)
Fire and other damage to property	60,650	62,725	(16,338)	(17,559)	(15,347)	13,481
Third party liability	1,009	783	(311)	(424)	(170)	(122)
Credit and suretyship	7,349	7,718	(3,357)	(1,986)	(1,021)	1,354
Assistance	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
	71,771	78,317	(24,913)	(21,691)	(16,642)	15,071
Reinsurance acceptances	140,683	139,291	(57,663)	(30,606)	(33,511)	17,511
Total	212,454	217,608	(82,576)	(52,297)	(50,153)	32,582

Year ended 31 December 2006

Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	**Total** £'000
Direct insurance:						
Motor (third party liability)	299	340	(156)	(171)	-	13
Motor (other classes)	6,961	9,403	(6,776)	(2,946)	(28)	(347)
Marine aviation and transport	8,623	8,575	(2,898)	(1,755)	(1,124)	2,798
Fire and other damage to property	70,835	62,930	(17,820)	(16,717)	(8,490)	19,903
Third party liability	(855)	(706)	412	(153)	(129)	(576)
Credit and suretyship	6,548	6,174	(3,011)	(1,675)	(633)	855
Assistance	-	-	-	-	-	-
Miscellaneous	551	554	(63)	(134)	(58)	299
	92,962	87,270	(30,312)	(23,551)	(10,462)	22,945
Reinsurance acceptances	132,614	131,957	(57,946)	(28,331)	(27,670)	18,010
Total	225,576	219,227	(88,258)	(51,882)	(38,132)	40,955

3 Particulars of business written *continued*

Geographical analysis by origin

	Gross written premiums		Profit		Net assets	
	2007	2006	**2007**	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Direct	**71,771**	92,962	**20,745**	24,962	**39,057**	17,900
Reinsurance	**140,683**	132,614	**21,797**	21,700	**29,496**	32,735
	212,454	225,576	**42,542**	46,662	**68,553**	50,635

All business originates in the UK.

Geographical analysis by destination

	Gross written premiums 2007 £'000	Gross written premiums 2006 £'000
UK	**32,230**	30,581
US	**114,621**	118,579
Other EU member states	**16,089**	22,687
Rest of the world	**49,514**	53,729
	212,454	225,576

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2007

continued

4 Net operating expenses

	2007 £'000	2006 £'000
Acquisition costs	**35,185**	37,622
Change in deferred acquisition costs	**953**	(120)
Administrative expenses	**6,538**	7,303
Reinsurance commissions and profit participation	**(318)**	(201)
Profit and loss on exchange	**(276)**	(274)
Personal expenses	**10,215**	7,552
	52,297	51,882

Administrative expenses include:

	2007 £'000	2006 £'000
Auditors' remuneration:		
- Audit of the accounts	**70**	72
- Other regulatory reporting	**18**	18
- Taxation services	**3**	3
- Other services	**34**	18

Total commissions for direct insurance accounted for in the year amounted to £15,014,011 (2006: £19,869,512).

5 Staff numbers and costs

All staff are employed by the managing agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	2007 £'000	2006 £'000
Wages and salaries	**3,331**	3,944
Social security costs	**394**	482
Other pension costs	**524**	507
	4,249	4,933

The average number of employees employed by the managing agency but working for the Syndicate during the year was as follows:

	2007	2006
Operations, administration and finance	**15**	14
Underwriting and claims	**23**	23
	38	37

6 Emoluments of the directors of Cathedral Underwriting Limited

Cathedral Underwriting Limited charged the Syndicate the following amounts in respect of emoluments paid to its directors, including the active underwriter, of the Syndicate:

	2007 £'000	2006 £'000
Emoluments	**693**	666

7 Active underwriter's emoluments

The active underwriter received the following aggregate remuneration charged to the Syndicate:

	2007 £'000	2006 £'000
Emoluments	**234**	216

8 Investment income

	2007 £'000	2006 £'000
Income from investments	**7,415**	6,012
Gains on the realisation of investments	**380**	128
	7,795	6,140

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2007

continued

9 Investment expenses and charges

	2007 £'000	2006 £'000
Investment management expenses, including interest payable	**123**	108
Losses on realisation of investments	**175**	435
	298	543

10 Financial investments

	Market value		Cost	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Shares and other variable yield securities	**17,918**	13,632	**17,918**	13,632
Debt securities and other fixed Income pools	**154,735**	129,753	**151,805**	129,581
Participation in investments pools	**3,693**	1,518	**3,693**	1,518
Loans with credit institutions	**-**	3,376	**-**	3,376
	176,346	148,279	**173,416**	148,107

Debt securities and other fixed income securities are all listed on recognised stock exchanges.

Loans with credit institutions include £nil (2006: £3,376,008) in respect of loans to the Lloyd's New Central Fund.

11 Debtors arising out of direct insurance operations

	2007 £'000	2006 £'000
Due within one year - intermediaries	**16,884**	22,321

12 Debtors arising out of reinsurance operations

	2007 £'000	2006 £'000
Due within one year	**56,436**	55,458

13 Other debtors

	2007 £'000	2006 £'000
Due within one year:		
Amounts due from members	**681**	785
Other	**26**	31
Due after one year:		
Amounts due from members	**1,792**	1,490
	2,499	2,306

14 Other assets - overseas deposits

	2007 £'000	2006 £'000
Amounts advanced in other countries as a condition of carrying on business there	**11,610**	9,434

15 Reconciliation of members' balances

	2007 £'000	2006 £'000
Members' balances at 1 January	**50,635**	35,878
Profit for the financial year	**42,542**	46,662
Exchange gains/(losses) for the financial year	**1,006**	(4,946)
Transfers to members' personal reserve funds	**(25,630)**	(26,959)
Members' balances carried forward at 31 December	**68,553**	50,635

Members' balances do not include members' agency fees or non-standard personal expenses.

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of that particular year.

Transfers to members' personal funds comprise the 2004 (2003) closed year of account profit.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2007

continued

16 Creditors arising out of direct insurance operations

	2007 £'000	2006 £'000
Due within one year	**120**	455

17 Creditors arising out of reinsurance operations

	2007 £'000	2006 £'000
Due within one year	**14,313**	17,064

18 Other creditors including taxation and social security

	2007 £'000	2006 £'000
Due within one year:		
Profit commission owed to managing agent	**3,752**	2,534
Expenses owed to managing agent	**97**	90
Other	**18**	7
	3,867	2,631
Due after one year:		
Profit commission owed to managing agent	**2,201**	2,182
	6,068	4,813

19 Movement in opening and closing portfolio investments, net of financing

	2007 £'000	2006 £'000
Net cash inflow/(outflow) for the year	**9,099**	125
Cash flow – portfolio investments	**25,558**	40,710
Movement arising from cash flows	**34,657**	40,835
Changes in market value and exchange rates	**4,833**	(14,505)
Total movement in portfolio investments net of financing	**39,490**	26,330
Balance brought forward at 1 January	**161,242**	134,912
Balance carried forward at 31 December	**200,732**	161,242

19 Movement in opening and closing portfolio investments, net of financing *continued*

	At 1 January 2007 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2007 £'000
Cash at bank and in hand	**3,529**	**9,099**	**148**	**12,776**
Overseas deposits	**9,434**	**1,978**	**198**	**11,610**
Shares and other variable yield securities	**13,632**	**4,472**	**(186)**	**17,918**
Debt securities and other fixed income securities	**129,753**	**20,548**	**4,434**	**154,735**
Participation in investment pools	**1,518**	**1,936**	**239**	**3,693**
Loan with credit institutions	**3,376**	**(3,376)**	**-**	**-**
Total portfolio investments	**157,713**	**25,558**	**4,685**	**187,956**
Total cash at bank and in hand and portfolio investments	**161,242**	**34,657**	**4,833**	**200,732**

20 Net cash (outflow)/inflow on portfolio investments

	2007 £'000	2006 £'000
Purchase of debt securities and other fixed income securities	**(150,384)**	(145,669)
Sale/(purchase) of loans and deposits with credit institutions	**3,376**	(1,875)
Sale of debt securities and other fixed income securities	**129,836**	112,833
Movement of shares and other variable yield securities	**(4,472)**	(4,277)
Movement of participation in investment pools	**(1,936)**	1,010
Movement of overseas deposits	**(1,978)**	(2,732)
Net cash (outflow)/inflow on portfolio investments	**(25,558)**	(40,710)

21 Related parties

The immediate parent company of Cathedral Underwriting Limited is Cathedral Capital (2000) Limited (previously called Cathedral Capital Holdings Limited).

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Limited (previously called Disciple Topco Limited).

Total fees paid during calendar year 2007 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to £1,948,383 (2006: £1,622,997).

Profit commission of £1,565,221 (2006: £2,533,677) is also due to the managing agent in respect of the profit on the 2005 (2004) closed year.

Profit commission of £3,742,346 (2006: £37,032) has also been accrued in respect of the 2006 (2005) year of account, with £644,971 (2006: £2,145,414) accrued in respect of the 2007 (2006) year of account.

£2,186,393 of the profit commission in respect of the 2006 year of account will be paid to the managing agent in 2008.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2007
continued

21 Related parties *continued*

Expenses totalling £6,857,493 (2006: £7,197,769) were recharged to the Syndicate by Cathedral Underwriting Limited. Where expenses were incurred jointly by the managing agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	- according to the estimated time of each individual spent on syndicate matters
Accommodation costs	- according to number of personnel
Other costs	- as appropriate in each case

Amounts owed to Cathedral Underwriting Limited at 31 December 2007 totalled £6,049,481 (2006: £4,806,373) and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided capacity to the 2005, 2006 and 2007 underwriting years. Cathedral Capital (1998) Limited's share of the profit for the 2007 calendar year is £25,233,950 (2006: £26,219,472).

22 Post balance sheet events

The following amounts will be transferred to members' personal reserve funds on 11 April 2008:

2005 Year of account	£3,620,052
	US$27,000,000
2006 Year of account	US$44,719,805

23 Funds at Lloyd's

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL").

The level of FAL Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation of a member. Therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

SYNDICATE UNDERWRITING YEAR ACCOUNTS

FOR THE 2005 YEAR OF ACCOUNT

CLOSED AT 31 DECEMBER 2007

Report of the Independent Auditors
To the Members on the 2005 Year of Account of Syndicate 2010

We have audited the syndicate underwriting year accounts of the 2005 year of account of Syndicate 2010 as closed at 31 December 2007. These accounts comprise the Statement of Managing Agent's Responsibilities, the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and related notes as set out on pages 41 to 56, and they have been prepared under the accounting policies set out therein.

This report is made solely to the members on the 2005 year of account of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations and the Lloyd's Syndicate Accounting Byelaw. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and the Lloyd's Syndicate Accounting Byelaw are set out in the Statement of Managing Agent's Responsibilities on page 41.

Our responsibility, as independent auditors, is to audit the syndicate underwriting year accounts in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the result of the closed year of account in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate and if the syndicate underwriting year accounts are not in agreement with the accounting records.

We read the Managing Agent's Report, the Chairman's Statement and the Underwriter's Report and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate underwriting year accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts of Syndicate 2010 give a true and fair view of the profit of its 2005 closed year of account.

MAZARS LLP
CHARTERED ACCOUNTANTS
and Registered Auditors

Tower Bridge House, St Katharine's Way, London E1W 1DD

19 March 2008

Statement of Managing Agent's Responsibilities

Cathedral Underwriting Limited as managing agent is responsible for preparing syndicate underwriting year accounts in accordance with applicable law and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 (the "Lloyd's Regulations") require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December. These syndicate underwriting year accounts must give a true and fair view of the result of the closed year of account.

In preparing these syndicate underwriting year accounts, the managing agent is required to:

(i) Select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

(ii) take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

(iii) make judgements and estimates that are reasonable and prudent; and

(iv) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year of accounts comply with the Lloyd's Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

L A Holder
Managing Director
Cathedral Underwriting Limited

19 March 2008

CATHEDRAL
SYNDICATE 2010

Profit and Loss Account
Technical Account - General Business
2005 Year of Account
For the 36 months ended 31 December 2007

		Notes	36 months ended 31 December 2007 £'000
Earned premiums, net of reinsurance			
Gross premiums written		3	**213,652**
Outward reinsurance premiums			**(56,194)**
Net premiums written			**157,458**
Change in the provision for unearned premiums			
Gross amount			**(620)**
Reinsurers' share			**47**
Earned premiums, net of reinsurance			**156,885**
Reinsurance to close premiums received, net of reinsurance		3	**30,330**
Allocated investment return transferred from the non-technical account			**6,337**
Claims incurred, net of reinsurance			
Claims paid	Gross amount		**(217,672)**
	Reinsurers' share		**136,094**
			(81,578)
Reinsurance to close premium payable, net of reinsurance		8	**(45,252)**
Claims incurred net of reinsurance			**(126,830)**
Net operating expenses		5	**(45,830)**
Balance on the technical account for general business			**20,892**

The underwriting year has closed; all items therefore relate to discontinued operations

The notes on pages 46 to 56 form part of these accounts.

Profit and Loss Account
Non-Technical Account
2005 Year of Account
For the 36 months ended 31 December 2007

	Notes	36 months ended 31 December 2007 £'000
Balance on the general business technical account		**20,892**
Investment income	6	**5,992**
Unrealised gains on investments		**1,193**
Investment expenses and charges	7	**(488)**
Unrealised losses on investments		**(360)**
Allocated investment return transferred to the general business technical account		**(6,337)**
Profit for the closed year of account	14	**20,892**

Statement of Total Recognised Gains and Losses
2005 Year of Account
For the 36 months ended 31 December 2007

	Notes	36 months ended 31 December 2007 £'000
Profit for the financial year	14	**20,892**
Currency translation differences	14	**(3,037)**
Total recognised gains and losses		**17,855**

The notes on pages 46 to 56 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

Balance Sheet
2005 Year of Account
For the 36 months ended 31 December 2007

	Notes	31 December 2007 £'000
Assets		
Investments	9	**47,939**
Debtors:		
Debtors arising out of direct insurance operations		
- Intermediaries	10	**743**
Debtors arising out of reinsurance operations	11	**14,378**
Other debtors	12	**5,890**
		21,011
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	8	**56,973**
Other assets:		
Cash at bank and in hand		**5,101**
Other	13	**4,430**
		9,531
Prepayments and accrued income		**14**
Total assets		**135,468**
Liabilities		
Amounts due to members	14	**17,855**
Reinsurance to close premiums payable to close the account – gross amount	8	**108,039**
Creditors:		
Creditors arising out of direct insurance operations	15	**38**
Creditors arising out of reinsurance operations	16	**7,884**
Other creditors including taxation and social security	17	**1,577**
		9,499
Accruals and deferred income		**75**
Total liabilities		**135,468**

The Syndicate underwriting year accounts on pages 41 to 56 were approved by the Board of Cathedral Underwriting Limited on 19 March 2008 and were signed on its behalf by:

L A Holder
Managing Director

J A Lynch
Finance Director

19 March 2008

The notes on pages 46 to 56 form part of these accounts.

Statement of Cash Flows
2005 Year of Account
For the 36 months ended 31 December 2007

	Notes	36 months ended 31 December 2007 £'000
Profit for the closed year of account		**20,892**
Realised and unrealised investments losses		**(722)**
Income from investments		**(5,357)**
Net reinsurance to close premium payable		**45,252**
(Increase) in debtors		**(8,672)**
(Increase) in prepayments and accrued income		**(13)**
Increase in creditors		**3,217**
Increase in accruals and deferred income		**75**
Exchange losses		**(3,037)**
Net cash inflow from operating activities		**51,635**
Returns on investment and servicing of finance:		
Interest received		**5,356**
Increase in cash and portfolio investments in the period		**56,991**
Cash flows were invested as follows:		
Increase in cash holdings	18	**5,101**
Net portfolio investments	19	**51,890**
Net investment of cash flows	18	**56,991**

The notes on pages 46 to 56 form part of these accounts.

Notes to the Syndicate Underwriting Year Accounts
2005 Year of Account
For the 36 months ended 31 December 2007

1 Basis of Preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (revised December 2006) ("the ABI SORP").

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2005 year of account which has been closed by reinsurance to close at 31 December 2007; consequently the Balance Sheet represents the assets and liabilities of the 2005 year of account and the profit and loss account, the statement of total recognised gains and losses and the statement of cash flows reflect the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2 Accounting Policies

Underwriting transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the Syndicate year of account.

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the balance of premiums written in the period to the balance sheet date that relate to unexpired terms of policies in force at that date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

(d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(e) Outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on a detailed review of losses and loss development by management and further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The methods used, and the estimates made, are reviewed regularly.

(f) Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date

Notes to the Syndicate Underwriting Year Accounts
2005 Year of Account
For the 36 months ended 31 December 2007

continued

Investments and investment return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the Technical Account General Business to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid price value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

Syndicate operating expenses

(i) Costs incurred by the managing agent in respect of the Syndicate are charged to the Syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the Syndicate, they are apportioned as follows:

Salaries and related costs - according to the estimated time of each individual spent on syndicate matters
Accommodation costs - according to number of personnel
Other costs - as appropriate in each case

The managing agent operates a defined contribution pension scheme and its recharges to the Syndicate staff costs which include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(j) Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(k) Transactions in US dollars, Canadian dollars and Euros are translated at the rate of exchange at the date of the transaction or at an approximate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used.

Although transactions are translated as described above, the final result for the year of account is calculated with US dollars, Canadian dollars and Euros translated at the balance sheet date rates of exchange.

Differences arising on the re-translation of foreign currency amounts are included in the Statement of Total Recognised Gains and Losses.

Where Canadian dollars or Euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

Notes to the Syndicate Underwriting Year Accounts
2005 Year of Account
For the 36 months ended 31 December 2007

continued

3 Particulars of business written

An analysis of the technical account balance before investment return is set out below:

				36 months ended 31 December 2007		
Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Motor (third party liability)	533	525	(554)	(68)	-	(97)
Motor (other classes)	11,476	11,423	(8,223)	(835)	780	3,145
Marine aviation and transport	8,384	8,373	(2,464)	(362)	(1,090)	4,457
Fire and other damage to property	59,220	59,132	(64,890)	(12,992)	25,425	6,675
Third party liability	773	761	(234)	(106)	(215)	206
Credit and suretyship	1,590	1,589	(603)	(2)	(96)	888
	81,976	81,803	(76,968)	(14,365)	24,804	15,274
Reinsurance acceptances*	162,006	161,559	(236,647)	(31,465)	105,834	(719)
Total	243,982	243,362	(313,615)	(45,830)	130,638	14,555

*Reinsurance acceptances include the reinsurance to close premium of £30,329,855 received from the 2004 year of account.

Geographical analysis by origin	Gross written premiums £'000	Profit £'000	Net assets £'000
Direct	81,976	21,923	18,736
Reinsurance	162,006	(1,031)	(881)
	243,982	20,892	17,855

All business originates in the UK.

Geographical analysis by destination	Gross written premiums £'000
UK	34,424
US	115,293
Other EU member states	28,621
Rest of the world	65,644
	243,982

4 Technical account balance before allocated investment return and net operating expenses

	36 months ended 31 December 2007 £'000
Balance attributable to business allocated to the 2005 year of account	55,257
Balance attributable to the reinsurance to close of the 2004 year of account	5,128
	60,385

5 Net operating expenses

	36 months ended 31 December 2007 £'000
Acquisition costs	34,702
Change in deferred acquisition costs	(88)
Administrative expenses	6,797
Reinsurers' commissions and profit participation	(337)
Profit on exchange	(104)
Personal expenses	4,860
	45,830

The closed year profit is stated after charging:

	36 months ended 31 December 2007 £'000
Auditors' remuneration:	
- Audit of accounts	65
- Other regulatory reporting	16
- Taxation services	3
- Other services	14
Staff pension costs	478

6 Investment income

	36 months ended 31 December 2007 £'000
Income from investments	5,743
Gains on the realisation of investments	249
	5,992

Notes to the Syndicate Underwriting Year Accounts
2005 Year of Account
For the 36 months ended 31 December 2007

continued

7 Investment expenses and charges

	36 months ended 31 December 2007 £'000
Investment management expenses, including interest	118
Losses on realisation of investments	370
	488

8 Reinsurance premium payable to close the 2005 year of account

	31 December 2007 £'000
Gross outstanding claims	78,574
Reinsurance recoveries anticipated	(43,835)
Net outstanding claims	34,739
Provision for gross claims incurred but not reported	29,465
Reinsurance recoveries anticipated	(13,138)
Provision for net claims incurred but not reported	16,327
Provision for future inwards gross premiums	(12,096)
Provision for future reinsurance protection	6,282
Provision for net premiums incurred but not reported	(5,814)
Reinsurance premium payable to close the account	45,252

9 Investments

	31 December 2007 Market value £'000
Shares and other variable yield securities	9,695
Debt Securities and other fixed income securities	37,794
Participation in investment pools	450
	47,939

10 Debtors arising out of direct insurance operations

	31 December 2007 £'000
Due within one year	
- intermediaries	743

11 Debtors arising out of reinsurance operations

	31 December 2007 £'000
Due within one year	14,378

12 Other debtors

	31 December 2007 £'000
Inter - year loans	5,207
Amount due from members	682
Other	1
	5,890

Amounts due from members includes members' agency fees paid by the Syndicate on behalf of members, and other non-standard personal expenses.

13 Other assets – overseas deposits

	31 December 2007 £'000
Amounts advanced in other countries as a condition of carrying on business there	4,430

14 Amounts due to members

	31 December 2007 £'000
Profit for the closed year of account	20,892
Currency translation differences	(3,037)
Members' balances carried forward at 31 December 2007	17,855

Members' balances do not include members' agency fees or non-standard personal expenses.

Notes to the Syndicate Underwriting Year Accounts
2005 Year of Account
For the 36 months ended 31 December 2007

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15 Creditors arising out of direct insurance operations

	31 December 2007 £'000
Due within one year	38

16 Creditors arising out of reinsurance operations

	31 December 2007 £'000
Due within one year	7,884

17 Other creditors including taxation and social security

	31 December 2007 £'000
Profit commission payable to managing agent	1,565
Expenses payable to managing agent	4
Other	8
	1,577

18 Movement in opening and closing portfolio investments, net of financing

	31 December 2007 £'000
Net cash inflow for the period	5,101
Cash flow – portfolio investments	51,890
Movement arising from cash flows	56,991
Changes in market value and exchange rates	479
Total movement in portfolio investments net of financing	57,470
Balance brought forward at 1 January 2005	-
Balance carried forward at 31 December 2007	57,470

	At 1 January 2005 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2007 £'000
Cash at bank and in hand	-	5,101	-	5,101
Overseas deposits	-	4,412	18	4,430
Investments	-	47,478	461	47,939
Total portfolio investments	-	51,890	479	52,369
Total cash and portfolio investments	-	56,991	479	57,470

19 Net cash (outflow) on portfolio investments

	36 months ended 31 December 2007 £'000
Purchase of overseas deposits	(4,412)
Purchase of investments	(160,208)
Sale of investments	112,730
Net cash (outflow) on portfolio investments	(51,890)

20 Borrowings

During the period to 31 December 2007, the Syndicate negotiated unsecured overdraft facilities with Barclays Bank plc to assist with the financing of expenses and the paying or funding of any significant catastrophe losses. These facilities were never used by the 2005 year of account and accordingly the balance outstanding at the balance sheet date was £nil.

21 Related parties

The immediate parent company of Cathedral Underwriting Limited is Cathedral Capital (2000) Limited (previously called Cathedral Capital Holdings Limited).

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Limited (previously called Disciple Topco Limited).

Total fees payable to Cathedral Underwriting Limited in respect of services provided to the Syndicate in respect of the 2005 year of account amounted to £1,298,057 of which £nil was outstanding at 31 December 2007. Profit commission of £1,565,224 is also due to the managing agent in respect of the profit on the 2005 closed year, and this was outstanding at 31 December 2007.

Expenses totalling £6,619,694 were recharged to the 2005 year of account by Cathedral Underwriting Limited. The basis on which expenses are apportioned is set out in note 2(i).

Amounts owed to Cathedral Underwriting Limited at 31 December 2007 totalled £1,569,264 and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided capacity to the underwriting years as follows:

	2005 Year of Account £	2006 Year of Account £	2007 Year of Account £
Cathedral Capital (1998) Limited	107,725,388	135,166,439	169,202,748

Notes to the Syndicate Underwriting Year Accounts
2005 Year of Account
For the 36 months ended 31 December 2007

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22 Post balance sheet events

The reinsurance premium to close the 2005 year of account at 31 December 2007 was agreed by the managing agent on 19 March 2008. Consequently the technical provisions at 31 December 2007 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw. The actual amount of reinsurance to close premiums paid will be after deduction of unsigned premiums.

The following amounts will be transferred to members' personal reserve funds on 11 April 2008: £3,620,052 and US$27,000,000.

Seven Year Summary of Results (unaudited)

	2005 YoA	2004 YoA	2003 YoA	2002 YoA	2001 YoA
Syndicate allocated capacity	£199.70m	£199.66m	£159.97m	£95.74m	£81.09m
Gross capacity utilised (i)	107.0%	98.4%	85.7%	98.1%	92.0%
Number of underwriting members	1,004	1,020	1,049	971	788
Aggregate net written premiums (i)	£157.50m	£152.08m	£103.64m	£64.70m	£32.62m
Net capacity utilised (i)	78.8%	76.2%	64.8%	67.6%	55.8%
Loss ratio (ii)	67.7%	59.3%	37.2%	43.3%	67.4%
Results for an illustrative share of £10,000					
Gross written premiums	10,699	9,843	8,571	9,808	9,197
Net earned premiums	7,856	7,649	6,266	6,736	5,416
Reinsurance to close received from an earlier account	1,519	1,041	892	1,418	-
Net claims paid	(4,085)	(3,636)	(1,361)	(2,044)	(1,979)
Reinsurance to close payable	(2,266)	(1,519)	(1,299)	(1,489)	(1,674)
Profit/(loss) on exchange	5	16	1	13	(5)
Acquisition costs	(1,733)	(1,612)	(1,210)	(1,132)	(908)
Syndicate operating expenses	(323)	(272)	(325)	(454)	(501)
Balance on technical account before investment return	973	1,667	2,964	3,048	349
Investment income and gains less losses, less expenses & charges	317	216	134	101	173
Profit for closed year of account before personal expenses	1,290	1,883	3,098	3,149	522
Currency translation differences	(152)	(233)	60	(512)	(279)
Total recognised gains and losses before personal expenses	1,138	1,650	3,158	2,637	243
Illustrative personal expenses for a traditional Name:					
- Managing agent's salary	(65)	(65)	(65)	(65)	(65)
- Central Fund contributions	(50)	(125)	(100)	(100)	(75)
- Lloyd's subscription	(50)	(50)	(25)	(25)	(25)
- Profit commission	(170)	(247)	(519)	(428)	(14)
Total illustrative personal expenses for a traditional Name	(335)	(487)	(709)	(618)	(179)
Total recognised gains and losses after illustrative personal expenses	**803**	**1,163**	**2,449**	**2,019**	**64**

Notes

(i) Premiums above are gross of brokerage. Therefore, it is possible that the capacity utilisation could exceed 100%, as the traditional way of monitoring utilisation is net of brokerage.

(ii) The loss ratio is claims paid plus the reinsurance to close divided into net earned premiums plus reinsurance to close received.

(iii) 2001 and 2002 year of accounts have been restated to be brought into line with the annual returns submitted to Lloyd's.

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